

Industrial Development Properties and Education Funding

Joint Select Committee on Business Taxes

November 6, 2007



Senate Bill 2061, House Bill 1473

- ◆ Introduced at the suggestion of the Comptroller
- ◆ Resulted from discussions involving Nissan's headquarters relocation
- ◆ Seemed a topic ripe for consideration...
- ◆ ...especially in light of BEP 2.0 capacity calculation changes
- ◆ Is one of many tax and public finance issues that must be addressed soon

What the Bill (as introduced) would do and not do:

- ◆ Require every PILOT (Payment in Lieu of Tax) Agreement to generate at least an amount equal to the county school tax
- ◆ Would apply to city or county IDB
- ◆ Allows for waiver under certain circumstances
- ◆ Doesn't mandate that PILOT payments be spent directly on schools

What the Bill (as introduced) would do and not do, (cont.):

- ◆ Deals only with County taxes
- ◆ Doesn't address SSD's (though it should)
- ◆ Doesn't consider state involvement in “voluntary” decisions by local government e.g. major industrial locations

Property Tax Base Impact

- ◆ Since property tax capacity is so important under BEP 2.0, fair and consistent assessment practices on a statewide basis are important now, more than ever.
- ◆ What one county does to voluntarily reduce available property tax base effects all others
- ◆ The issue is broader than just industrial development properties

TACIR vs. CBER(Fox)

TACIR

- ◆ Local Revenue
- ◆ Property
- ◆ Sales
- ◆ Per Capita Income
- ◆ Ratio of Residential & Farm to Total Assessment
- ◆ Ratio of Average Daily Membership to Population

CBER (Fox)

- ◆ Property Tax Base
- ◆ Sales Tax Base

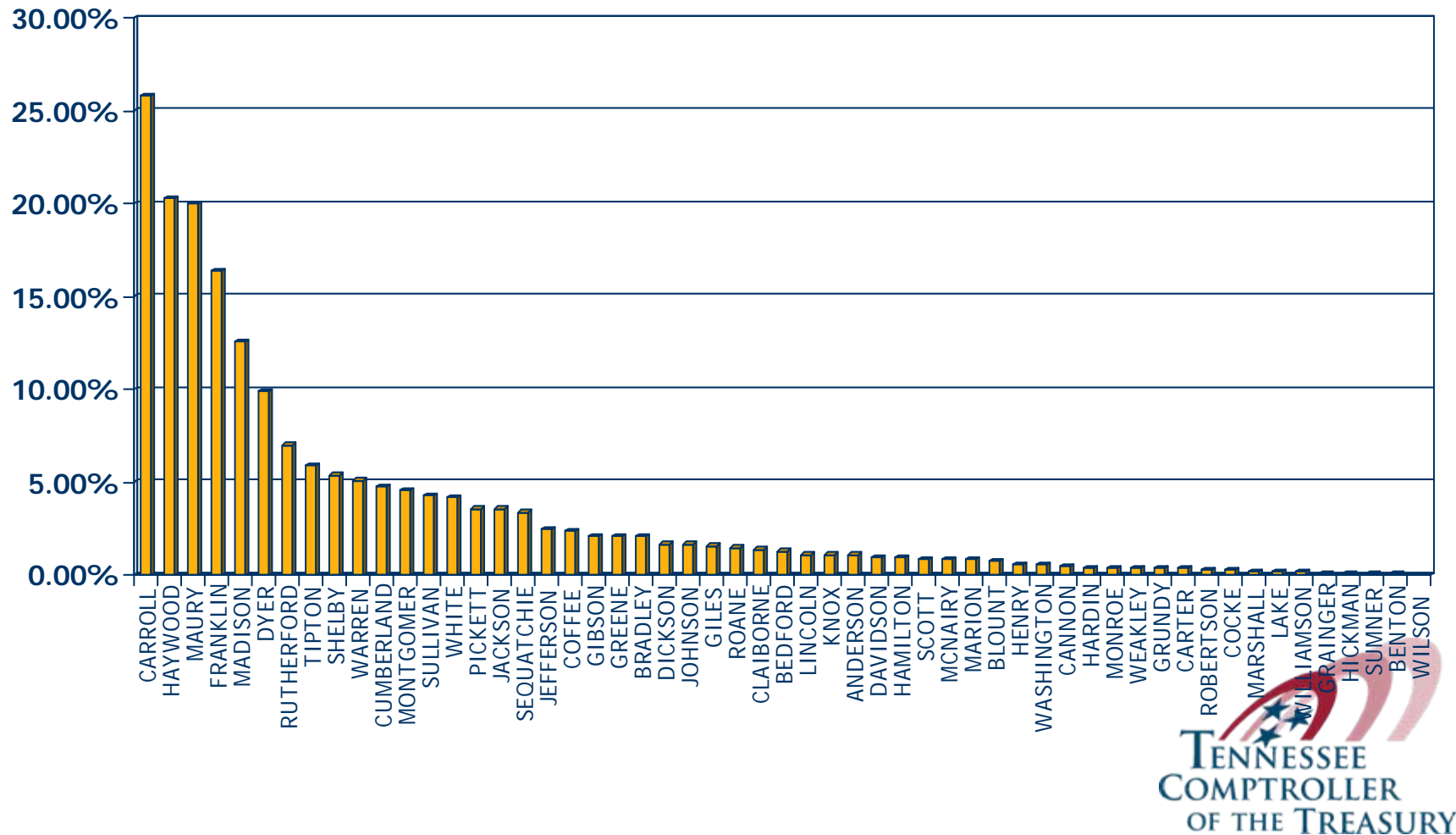
Assessment Importance

- ◆ Property tax collections account for over 60% of local tax revenues toward education.
- ◆ On a dollar for dollar basis, property tax base is almost 65% of the available local tax base.
- ◆ Known IDB properties account for 3% of the local property tax base.
 - This amount varies by county with some reporting 0% and some in excess of 20%

IDB Property Values

- ◆ Currently reported assessed value estimated to be in excess of \$3 billion.
- ◆ Almost half of counties do not report any properties owned by industrial development boards.
- ◆ Wide range of board activity by county.

IDB Property Values Ranked as a Percent of Total Tax Base



IDB Property Issues

- ◆ Inclusion has no impact on total state share and total local share, that is determined by law.
- ◆ The decision that one Board makes affects the local ability of all other counties in the state.
- ◆ Inclusion or exclusion of IDB properties causes shifts in responsibility of the local share from county to county.

Largest Percentage IDB Impact

County	Percent Change	Total County Area State \$ Share Change
Maury	-3.01%	(\$1,326,000)
Madison	-2.09%	(\$918,000)
Carroll (and included SSDs)	-1.94% to -1.91%	(\$449,000)
Dyer and Dyersburg City	-.83% and -.78%	(\$216,000)
Rutherford and Murfreesboro City	-.63% and -.60%	(\$921,000)

Shelby County Example

- ◆ Shelby County reports almost \$1 billion in assessed values of IDB properties or almost 1/3rd of the total.
- ◆ If Shelby put an equivalent amount into IDBs and it were not reported, the rest of the systems would pick up more of the total state and local share, locally. {See following example}

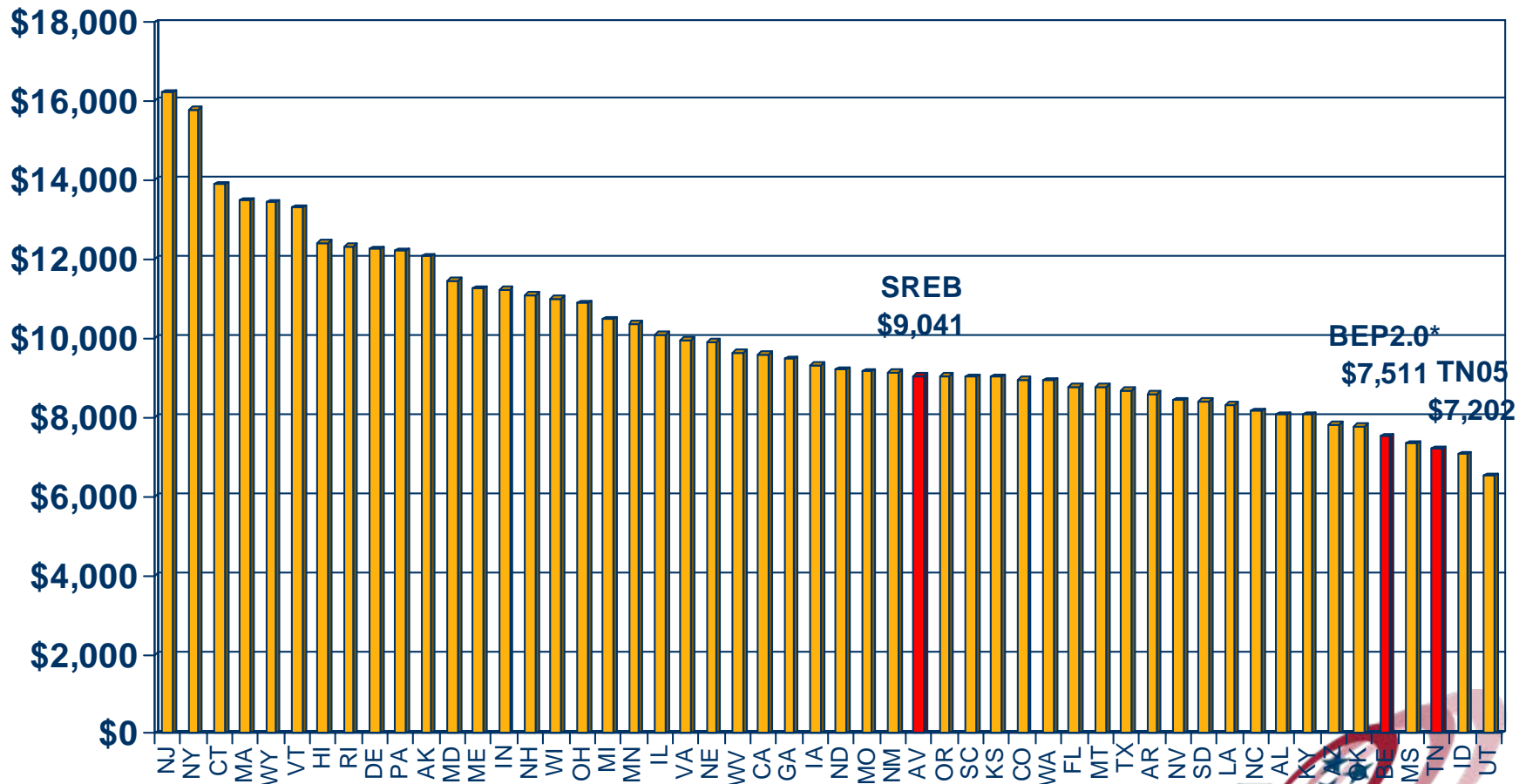
Shelby County Example

Local Education Agency	Change in State Share in \$
Shelby County	\$1,128,000
Memphis City	\$2,811,000
Davidson County	(\$378,000)
Knox County	(\$318,000)
Hamilton County	(\$268,000)
Rutherford County	(\$148,000)
Putnam County	(\$44,000)
Maury County	(\$65,000)
Bedford County	(\$28,000)
Lauderdale County	(\$11,000)
Tipton County	(\$32,000)

Other Related Issues for Future Agendas

- ◆ Interaction of IDB activity on an intergovernmental basis in a county
- ◆ Low Income Elderly Tax Freeze Program
- ◆ Continuing concentration of sales tax activity
- ◆ General discontent with property tax
- ◆ Continuing pressures to adequately fund public education in a low tax state

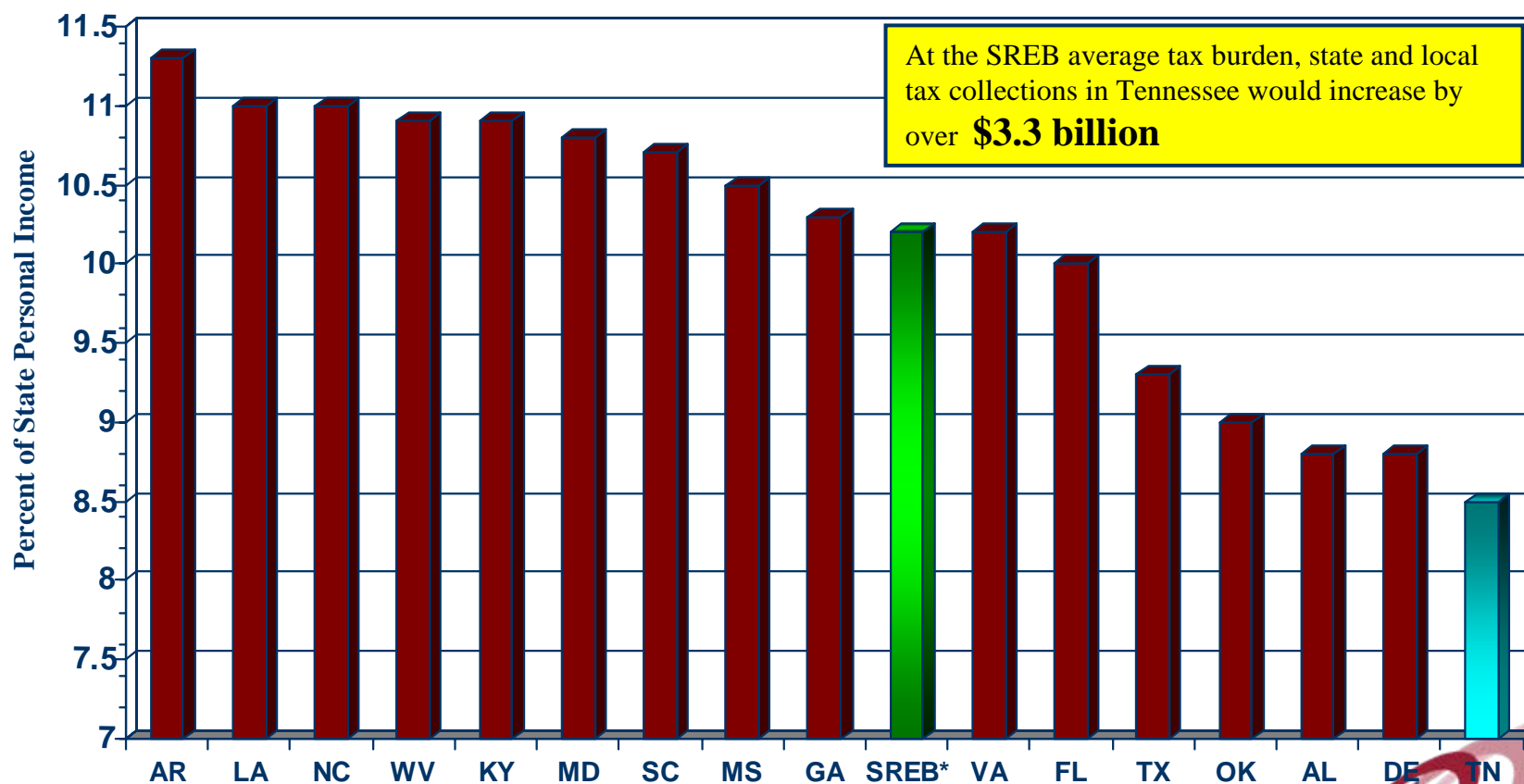
State and Local Revenues Per Pupil Fiscal Year 2005



SOURCE: U.S. Census Bureau, Public Elementary-Secondary Education Finances 2004-2005

*BEP2.0 Includes new state investment for FY08 compared to static spending by others

State and Local Tax Burden as Share of Personal Income in the SREB States, 2007



*Average of SREB states excluding Tennessee. The SREB average including Tennessee is 10.1%

Source: The Tax Foundation